

STATE OF NORTH DAKOTA
BEFORE THE COMMISIONER OF INSURANCE

In the Matter of the Proposed Merger of)	FINDINGS OF FACT,
St. Paul Insurance Company of North)	CONCLUSIONS OF LAW,
Dakota into St. Paul Fire and Marine)	AND RECOMMENDED ORDER
Insurance Company)	CASE NO. CO-03-121

A public hearing on the above-captioned matter was held on Wednesday, December 3, 2003, before Doug Holloway, the Deputy Commissioner of Insurance of the State of North Dakota at 10:00 a.m. in the office of the Commissioner of Insurance, 5th Floor, State Capitol, Bismarck, North Dakota. The purpose of the hearing was to receive and consider evidence and to allow all interested parties to be heard regarding the proposed consolidation of St. Paul Insurance Company of North Dakota into St. Paul Fire and Marine Insurance Company as required by N.D. Cent. Code § 26.1-07-05.1. That based on the documents and pleadings filed in this matter and the testimony and evidence presented at the hearing, the Deputy Commissioner hereby enters the following Findings of Fact, Conclusions of Law, and Order recommending approval of the proposed merger:

FINDINGS OF FACT

1. St. Paul Insurance Company of North Dakota (hereinafter "St. Paul of North Dakota") is an insurer organized and existing under the laws of North Dakota.
2. St. Paul Fire and Marine Insurance Company (hereinafter "St. Paul Fire and Marine") is an insurer organized and existing under the laws of Minnesota.
3. On October 17, 2003, St. Paul Insurance Company of North Dakota, by and through Christopher Gerst in his capacity as Corporate Counsel and Assistant Secretary of St.

Paul of North Dakota, filed with the North Dakota Insurance Department (hereinafter "Department") a letter and attachments as a petition for approval of a proposed merger of St. Paul of North Dakota into St. Paul Fire and Marine. The attachments to the petition consisted of the (1) Articles of Merger and appended Plan of Merger between St. Paul of North Dakota and St. Paul Fire and Marine executed by Bruce Backberg, in his capacity as Senior Vice President and Secretary of both Companies and attested to by Christopher E. Gerst, in his capacity as Corporate Counsel and Assistant Corporate Secretary of both companies; (2) a Certified Resolution of the Board of St. Paul of North Dakota adopting and approving the merger; and (3) a copy of the Certificate of Authority issued to St. Paul of North Dakota by the North Dakota Insurance Department.

4. On October 28, 2003, St. Paul Insurance Company of North Dakota, by and through Christopher Gerst in his capacity as Corporate Counsel and Assistant Secretary of St. Paul of North Dakota, filed with the Department a revised Petition for approval of a proposed merger of St. Paul of North Dakota into St. Paul Fire and Marine.

5. On October 29, 2003, the Commissioner of Insurance issued an Order for Notice of Hearing requiring that St. Paul of North Dakota mail notice to its policyholders of the pendency of the Petition and of the time when and place where a hearing on the Petition would be held. Said hearing was set for Wednesday, December 3, 2003 at 10:00 a.m. in the office of the Commissioner of Insurance, 5th Floor, State Capitol, 600 East Boulevard Avenue, Bismarck, North Dakota.

6. Christopher Gerst, on behalf of St. Paul of North Dakota, mailed via guaranteed overnight delivery (Airborne Express), a third party commercial delivery service, a document

described as "Notice of Pendency of Petition and Hearing" on October 29, 2003, to the address of each of the policyholders of St. Paul of North Dakota.

7. A copy of the Order for Notice of Hearing and the Petition filed with the Department on October 28, 2003, were published in the following newspapers on the dates indicated below:

The Grand Forks Herald on November 1, 2003

The Jamestown Sun on November 1, 2003

The Bismarck Tribune on November 7, 2003

The Forum on November 10, 2003

The Dickinson Press on October 31, 2003

8. The hearing on the proposed merger was duly held at the time and place contained in the notices.

9. Christopher Gerst and Tim Hill, Financial Analyst with the North Dakota Insurance Department, were duly sworn and presented testimony at the hearing. No other parties, interested persons, or members of the public appeared at the hearing to give testimony or to express an opinion on the proposed merger. Apart from the hearing, the Commissioner has not received any comments from the policyholders of St. Paul of North Dakota or the general public concerning the proposed merger.

10. St. Paul Fire and Marine is the parent company and sole shareholder of St. Paul of North Dakota.

11. St. Paul of North Dakota has only two policyholders and both policyholders are domiciled in North Dakota.

12. The merger of St. Paul of North Dakota into St. Paul Fire and Marine has been proposed because the consolidated company would be able to eliminate the administrative and operating costs associated with operating St. Paul of North Dakota as a separate entity.

13. The Plan of Merger has been adopted and approved by the unanimous written consent of the Board of Directors of St. Paul of North Dakota on October 15, 2003, by written consent of the sole shareholder of St. Paul of North Dakota dated October 15, 2003, and by unanimous written consent of the Board of Directors of St. Paul Fire and Marine dated October 15, 2003.

14. The Articles of Merger in conjunction with the appended Plan of Merger provide that upon the effective date of the merger, St. Paul of North Dakota shall be merged into St. Paul Fire and Marine. St. Paul Fire and Marine shall be the surviving Corporation and its corporate existence along with its purposes, powers and objects shall continue unaffected and unimpaired by the merger. The separate existence of St. Paul of North Dakota shall cease on the effective date of the merger.

15. Upon the effective date of the merger, title to all the property, rights, privileges, franchises, patents, trademarks, licenses, registrations, and other assets of every kind and description of the merged corporation, shall be transferred to, vested in and evolve upon, the surviving corporation, without further act or deed and all property, rights and every other interest of the surviving corporation and merged corporation shall be the property of the surviving corporation.

16. Upon the effective date of the merger, all insurance policies and reinsurance agreements of the merged corporation in existence as of the effective date of the merger shall become policies and agreements of the surviving corporation, except for any intercompany

reinsurance agreement between the surviving and merged company which shall be canceled and of no further force and effect as of the effective date of the merger.

17. Upon the effective date of the merger, St. Paul Fire and Marine shall assume all of the liabilities and reserves of St. Paul of North Dakota.

18. Upon the effective date of the merger, St. Paul Fire and Marine shall assume all the rate and form filings of St. Paul of North Dakota.

19. Upon the effective date of the merger, all statutory deposits, commitments and obligations of St. Paul of North Dakota shall become the property and obligation of St. Paul Fire and Marine.

20. The terms of the policies issued to the policyholders of St. Paul of North Dakota would not be changed as a result of the proposed merger except that St. Paul Fire and Marine would assume the responsibilities and obligations of St. Paul of North Dakota under the policies and that references in the policies to St. Paul of North Dakota would be changed by endorsement to St. Paul Fire and Marine.

21. The surviving Company will have the organization and expertise to provide an equal or greater level of service to the policyholders of St. Paul of North Dakota.

22. St. Paul Fire and Marine has an "A Excellent" rating from A.M. Best Company, a "A1" rating from Moody's Investor Services, and an "A+Strong" rating from Standard and Poor's.

23. St. Paul Fire and Marine has over \$17 billion dollars in assets and a capital surplus exceeding \$4 billion dollars. The capital surplus of St. Paul Fire and Marine exceeds the capital surplus of St. Paul of North Dakota by approximately one thousand times. Although the risk based capital numbers are more favorable for St. Paul of North Dakota than for St. Paul

Insurance Company, the risk based capital ratio of St. Paul Fire and Marine is more than sufficient to handle any claims that might arise under the two policies of insurance issued by St. Paul of North Dakota. The difference in the risk based capital ratios between the two companies is due primarily to the unique position of St. Paul of North Dakota in that it is virtually inactive and has only two policy holders remaining at this time.

24. The surviving Company would be financially sound and have the ability to pay claims that might arise under the policies of insurance issued by St. Paul of North Dakota.

25. The financial security of the policyholders of St. Paul of North Dakota will not be materially reduced by the proposed merger.

26. The merger of St. Paul of North Dakota into St. Paul Fire and Marine is equitable to the policyholders of St. Paul of North Dakota and, from a policyholder standpoint, will have little if any discernable impact on the policyholders of St. Paul of North Dakota or on any policies of insurance that are currently in force.

27. The following persons would be in control of the operation of the consolidated Company:

Jay Fishman, President and Chief Executive Officer and Director

Dennis A. Crosby, President of Middle Market

William H. Heyman, Executive Vice President and Chief Information Officer

John A. MacColl, Executive Vice President and Director

Thomas A. Bradley, Executive Vice President

Andy F. Bessette, Executive Vice President

Timothy M. Miller, Executive Vice President and Director

Kent D. Urness, Executive Vice President and Director

Timothy M. Yessman, Executive Vice President and Director

Marita Zuraitis, Executive Vice President and Director

28. The persons listed in Paragraph 27 who would be in control of the operation of the consolidated Company have the experience, competence, and integrity to operate the consolidated Company.

29. There is no evidence to suggest that it would not be in the interest of policyholders for the people listed in Paragraph 27 to be in control of the operations of the consolidated Company.

30. In considering St. Paul of North Dakota's petition to merge into St. Paul Fire and Marine, numerous factors were considered including but not limited to the following: (1) Whether the proposed consolidation would be inequitable to the policyholders of St. Paul of North Dakota; (2) Whether the proposed consolidation would materially reduce the financial security of policyholders of St. Paul of North Dakota, and; (3) Whether it would not be in the interest of the policyholders of St. Paul of North Dakota to approve the merger after considering the competence, experience, and integrity of the persons who would be in control of the operation of the consolidated Company.

CONCLUSIONS OF LAW

1. The Commissioner of Insurance has jurisdiction over the proposed consolidation pursuant to N.D. Cent. Code Chapter 26.1-07.

2. St. Paul of North Dakota has complied with the procedural requirements of N.D. Cent. Code § 26.1-07-02.

3. All the requirements of N.D. Cent. Code §§ 26.1-07-04 and 26.1-07-05.1 were complied with and that the hearing on St. Paul of North Dakota's Petition seeking approval of its

merger into St. Paul Fire and Marine was conducted in accordance with N.D. Cent. Code Chapters 26.1-07 and 28-32.

4. The Commissioner of Insurance has the authority and discretion to approve the proposed merger of St. Paul of North Dakota into St. Paul Fire and Marine.

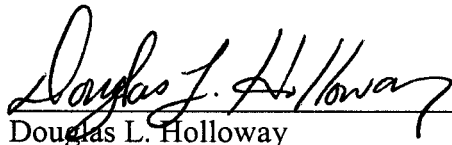
NOW, THEREFORE, based upon the Findings of Fact and Conclusions of Law, it is ordered as follows:

RECOMMENDED ORDER

The proposed merger of St. Paul Insurance Company of North Dakota into St. Paul Fire and Marine Insurance Company is APPROVED by the Commissioner of Insurance effective January 1, 2004.

The Commissioner of Insurance will retain jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such further order or orders as may be deemed proper or necessary.

DATED this 17 day of December, 2003.



Douglas L. Holloway
Deputy Commissioner of Insurance
N.D. Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505
(701) 328-2440